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Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

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I. Introduction

A. Origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly in its resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the General Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group,[1] and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year.[2]

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mr. Volkan Vural of Turkey.

B. Consideration of the report of the Working Group at the fifty-second session of the General Assembly

4. The report of the Working Group on its activities in 1997 (A/52/578) was considered by the General Assembly at its fifty-second session under agenda item 86, entitled "United Nations Relief and Works Agency for the Palestine Refugees in the Near East". At its 4th plenary meeting, on 19 September 1997, the Assembly decided to include this item in its agenda and to allocate it to the Special Political and Decolonization Committee (Fourth Committee), which considered it at its 21st, 22nd and 25th meetings, on 24 and 26 November 1997.

5. At the 25th meeting of the Committee, on 26 November, the representative of the Netherlands introduced a draft resolution entitled "Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East" (A/C.4/52/L.11) sponsored by Austria, Australia, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Romania, Spain, Sweden, Turkey and the United Kingdom of Great Britain and Northern Ireland.

6. Under the terms of the draft resolution, the General Assembly would:

(a) Commend the Working Group for its efforts to assist in ensuring the Agency's financial security;

(b) Take note with approval of the report of the Working Group;

(c) Request the Working Group to continue its efforts, in cooperation with the Secretary-General and the Commissioner-General, for the financing of the Agency for a further period of one year;

(d) Request the Secretary-General to provide the necessary services and assistance to the Working Group for the conduct of its work.

7. At the same meeting, the Committee adopted the draft resolution without a vote.

8. At its 69th plenary meeting, on 10 December 1997, the General Assembly considered the draft resolution regarding the Working Group, which had been recommended by the Special Political and Decolonization Committee (Fourth Committee), together with other draft resolutions under this item. At the same meeting the Assembly adopted the draft resolution without a vote as resolution 52/58.

II. Activities of the Working Group during 1998

9. Throughout the year, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held two meetings, on 3 September and 22 October 1998, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its meeting on 22 October 1998.

10. At its 119th meeting, on 3 September 1998, the Working Group heard the representative of UNRWA in New York, who submitted an up-to-date report on the financial situation of the Agency. The Working Group gave further consideration to the representative's report at its 120th meeting, on 22 October 1998 (see sect. III below).

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

11. UNRWA ended the 1997 financial year with a deficit of $1.9 million in its cash budget, representing the difference between actual cash expenditures of $252.4 million and actual cash income of $250.5 million. However, the difference between cash income and the cash budget of $312 million for the year meant that the Agency recorded a budget deficit of $61.5 million in 1997. Total cash and in-kind income received by the Agency in 1997 was $317.2 million, of which $270.9 million was for the regular budget, with the remainder, $46.3 million, being for projects. The Agency's total cash expenditure in 1997 was $281.5 million, of which $252.4 million was for the regular budget and $29.1 million for projects.

12. By the middle of 1997, successive rounds of austerity measures, which had been introduced in response to repeated funding shortfalls since 1993 and carried over from year to year, had accumulated to a value of $50 million. Those measures had reduced estimated cash expenditure in the Agency's regular programme for 1997 from the budgeted level of $312 million to a level of $262 million. The measures included significant reductions in budget allocations in many areas, including medical equipment and other supplies and hospitalization, as well as the freezing of certain posts and the non-funding of a provision for termination indemnities. The recruitment of teachers on a special contract basis at lower salaries, to fill vacancies created by the departure of regular staff, was also used increasingly as a cost-saving measure. Notwithstanding these measures, in mid-1997 expected income against the regular budget was estimated at only $242 million for the year, thus presenting the Agency with the prospect of a "core deficit" of $20 million.

13. In view of the critical situation, the Commissioner-General of UNRWA was compelled in August 1997 to introduce additional austerity and cost-reduction measures, which, despite strenuous efforts to avoid such an effect, would have represented for the first time, a reduction in services provided by the Agency. As outlined in the report of the Working Group on its activities in 1997 (A/52/578), these measures included a general freeze on

recruitment, a reduction of 15 per cent in the number of international staff posts, the imposition of freezes on regular budget allocations for the rehabilitation of refugee shelters, on some emergency cash assistance and on the Agency's share of university scholarship grants, as well as a proposed two-month freeze on non-emergency hospitalization reimbursements and the proposed introduction of school charges. The proposed implementation of these last two measures had an immediate impact on the Agency's relations with the refugee community and the host authorities.

14. In September 1997, the Commissioner-General again convened an extraordinary meeting of the Agency's major donors and the host authorities and issued a new appeal for urgent contributions to overcome the crisis. Donors responded generously and rapidly, announcing additional pledges of $21 million for 1997, enabling the Agency narrowly to avert having to suspend operations and permitting it to rescind, even before they were implemented, the proposed measures relating to hospitalization and school charges.

15. The measures taken by the Agency to get through 1997, including maintaining previously imposed austerity measures and introducing new ones, meant that some activities provided for in the budget approved by the General Assembly for the biennium 1996–1997 once again were not fully implemented. This had a further negative effect on the level and quality of the humanitarian programmes delivered by UNRWA. Moreover, the successive shortfalls in funding in recent years had led to a further depletion of the Agency's "working capital" reserves, representing the difference between assets and liabilities in the regular budget. At the end of 1997, these reserves stood at less than $400,000, compared with an optimal level of some $25 million. Repeated funding shortfalls in recent years had also seriously eroded the Agency's cash reserves – the amount of cash on hand in Agency bank accounts at any given time that could be used to meet basic obligations. At the end of 1997, outstanding cash pledges amounted to some $71 million, of which $24.7 million related to the regular budget and $46.3 million to projects, while available cash balances were down to about $25 million, the equivalent of one month's expenditure. In other words, the deficit situation and the cash problem had become more closely interlinked.

16. The Agency thus began 1998 with depleted working capital, low cash balances and no indication of a significant increase in overall income. As expected cash income for 1998 would fall far short of the $314 million regular budget for the year, the Agency was obliged to carry forward all austerity measures previously implemented, including those announced in August 1997 and not rescinded. Expected cash expenditure was also reduced slightly through other steps, including higher vacancy rates, delaying recruitment to fill vacant international and local posts as part of the general recruitment freeze, and making use of contract teachers to fill vacancies in the education programme. Benefits were also realized from previous and ongoing restructuring measures, mainly by reducing the number of international staff and through the non-utilization of certain budget lines as part of stricter financial controls.

17. Those factors together had the effect of reducing projected 1998 cash expenditure below the $314 million level approved by the General Assembly. As at the end of June 1998, cash expenditure in the regular programme in 1998 was expected to be $253 million, compared with expected cash income in 1998 of some $252 million. The revised projection of cash income of $252 million for 1998 represented an increase of $16 million from the projection made at the end of the first quarter of the year. The reasons for that included an additional $12 million in income from pledges announced at an informal meeting of major donors and host authorities held in May 1998, together with some $4 million in savings resulting from developments on international currency markets and the early payment of some regular contributions. The effect of those two developments was, in the first instance,

to increase the potential dollar value of contributions outstanding for the rest of the year, and in the case of the early payment of pledges to add to the Agency's estimated interest income for the year. Nevertheless, the Agency's 1998 budget remained only partially funded, and the estimated 1998 budget deficit remained high, at $62 million.

18. A further complicating factor has been brought to the Working Group's attention. That is the issue of the Agency's outstanding claims for the repayment of value-added tax and other charges, such as customs clearance and port fees, which have been remitted by UNRWA to the Palestinian Authority in the course of maintaining the Agency's regular programmes and special projects in the Gaza Strip and West Bank. As at August 1998, the value of these claims had reached some $19 million.

19. The 1999 share of the 1998–1999 budget approved for UNRWA by the General Assembly at its fifty-second session is some $322.1 million. This amount is generally at the same level as for 1998, which was $314 million, despite the continued increase in the number of Palestine refugees and inflation. If UNRWA receives the same amount from donors in 1999 as is expected for 1998, the Agency will still face a budget deficit of $71 million in 1999. That figure makes no provision for the restoration of cuts made in previous years or for the cost of termination indemnities.

IV. Concluding remarks

20. The Working Group is once again deeply concerned about the financial prospects for UNRWA, particularly after five years of austerity measures, which have eroded the level and quality of the services provided by the Agency to 3.5 million Palestine refugees. In this regard, the Group draws attention to the table and graphs contained in the annex to the present report, which show the trend in expenditure by UNRWA per refugee since 1987. The Group accepts that it is the responsibility of the international community to ensure the maintenance of UNRWA services at acceptable levels, in terms of quantity and quality, as defined by the needs of the refugee community, and to ensure that service levels keep pace with the steady natural growth of the refugee population.

21. The Working Group appreciates that UNRWA has made significant progress towards eliminating the structural deficit problem that plagued the Agency in previous years, in particular through the use of contract teachers and reductions in international staffing. The Group commends all UNRWA staff for their tireless efforts to maintain the basic operations of the Agency despite the constraints on the availability of resources that they have faced. It commends UNRWA also for its fund-raising efforts and for its commitment to keeping the major donors and host authorities of the Agency informed and involved, opening new avenues of support and funding and seeking a broader base of donors.

22. The Working Group expresses alarm at the continuing negative effect of five years of austerity measures owing to shortfalls in funding. These measures have prevented programmes from expanding at a rate commensurate with the growth in the refugee population, necessitated curtailments in ongoing programme activities and precluded certain actions that would normally be part of the Agency's regular programme activities. Most seriously, restrictions on hiring have led to increased class sizes in Agency schools, rising patient/staff ratios in the health services and higher caseloads for social workers dealing with the poorest refugees. The employment of teachers on a contract basis has made a significant contribution to reducing costs in the Agency's largest programme, education. However, the Working Group appreciates that this action is not a long-term solution to securing the funding of the Agency's regular activities on a sustainable basis, and that it

could have negative effects on the Agency's relations with its area staff, who are the bedrock on which its continued functioning depends. As for the effects of other austerity measures, the Working Group is concerned that the freeze on regular budget allocations for university scholarships, rehabilitation of shelters and selective cash assistance has not only reduced the Agency's activities in those areas, but made them dependent on extrabudgetary contributions; that cuts in allocations for facilities maintenance have led to the deterioration of the Agency's extensive physical assets; and that reductions in hospitalization allocations have meant that some patients who require hospital care may be unable to receive it. The Working Group is gravely concerned at the impact of these measures on the lives of the Palestine refugees, particularly in the areas of education and health care. The Group fears that additional austerity cuts, such as those which were narrowly avoided last year, could cause severe social and economic hardship to an already suffering refugee population, and that this would put an increased burden on the authorities hosting the refugees. The Working Group continues to believe that UNRWA plays a vital role in preserving the stability and security of the region.

23. The Working Group agrees that the problem of the refugees is deeply rooted in a political issue that originated more than half a century ago, and that it remains essential to settle this problem once and for all in accordance with all relevant United Nations resolutions. However, the problems faced by the refugees today are humanitarian ones that must be addressed as a shared international responsibility. The services provided by UNRWA must be seen as the minimum required to enable the refugees to lead decent human lives. Any further reduction in those services would not only unfairly deprive the refugees of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Working Group expresses the hope that the international support for UNRWA embodied in annual General Assembly resolutions recognizing the importance of the Agency's work and requesting that Governments contribute to it should be translated into measures for ensuring the survival of the Agency on a secure financial basis.

24. The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 1999, and once again:

(a) Urges those Governments that have not yet contributed to UNRWA to start to do so;

(b) Urges those Governments that have so far made only relatively small contributions to increase their contributions;

(c) Urges those Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;

(d) Urges those Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing or to increase their contributions;

(e) Urges Governments to consider making special contributions sufficient to cover the deficit so that UNRWA services can continue uninterrupted and the Agency can restore services cut as a result of the austerity measures, and to ensure that donor support of emergency-related and special programmes or capital projects does not in any way decrease or divert contributions to the Agency's regular programmes.

Notes

[1] *Official Records of the General Assembly, Twenty-fifth Session, Annexes*, agenda item 35, document A/8264; ibid., *Twenty-sixth Session, Annexes*, agenda item 38, document A/8476; ibid., *Twenty-seventh Session, Annexes*, agenda item 40, document A/8849; ibid., *Twenty-eighth Session, Annexes*, agenda item 43, document A/9231; ibid., *Twenty-ninth Session, Annexes*, agenda item 38, document A/9815; ibid., *Thirtieth Session, Annexes*, agenda item 54, document A/10268 and A/10334; ibid., *Thirty-first Session, Annexes*, agenda item 53, document A/31/279; ibid., *Thirty-second Session, Annexes*, agenda item 55, document A/32/278; ibid., *Thirty-third Session, Annexes*, agenda item 54, document A/33/320; ibid., *Thirty-fourth Session, Annexes*, agenda item 50, document A/34/567; A/35/526, A/36/615; A/37/591; A/38/558; A/39/575; A/40/736; A/41/702; A/42/633; A/43/702; A/44/641, A/45/645; A/46/622; A/47/576; A/48/554; A/49/509; A/50/491; A/51/509 and A/52/578.

[2] Resolutions 2791 (XXVI) of 6 December 1971, 2964 (XXVII) of 13 December 1972, 3090 (XXVIII) of 7 December 1973, 3330 (XXIX) of 17 December 1974, 3419 (XXX) of 8 December 1975, 31/15 C of 23 November 1976, 32/90 D of 13 December 1977, 33/112 D of 18 December 1978, 34/52 D of 23 November 1979, 35/13 D of 3 November 1980, 36/146 E of 16 December 1981, 37/120 A of 16 December 1982, 38/83 B of 15 December 1983, 39/99 B of 14 December 1984, 40/165 B of 16 December 1985, 41/69 B of 3 December 1986, 42/69 B of 2 December 1987, 43/57 B of 6 December 1988, 44/47 B of 8 December 1989, 45/73 B of 11 December 1990, 46/46 B of 9 December 1991, 47/69 B of 14 December 1992, 48/40 B of 10 December 1993, 49/35 B of 9 December 1994, 50/28 B of 6 December 1995, 51/125 of 13 December 1996 and 52/58 of 10 December 1997.

Annex

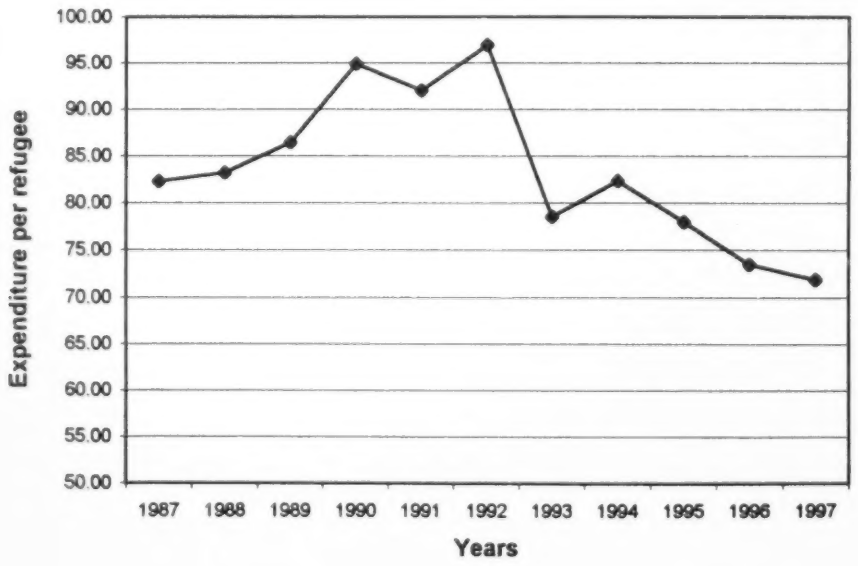
A. United Nations Relief and Works Agency for Palestine Refugees in the Near East expenditure from 1987 to 1997

(United States dollars)

Year	*Total actual expenditure*	*Total number of refugees*	*Expenditure per refugee*
1987	181 142 128	2 201 123	82.30
1988	188 746 621	2 268 595	83.20
1989	201 816 373	2 334 637	86.44
1990	229 860 825	2 422 514	94.89
1991	231 700 221	2 519 487	91.96
1992	256 679 308	2 648 707	96.91
1993	219 790 061	2 797 179	78.58
1994	247 633 868	3 006 787	82.36
1995	247 383 380	3 172 641	77.97
1996	243 156 900	3 308 133	73.50
1997	245 610 557	3 417 688	71.86

B. United Nations Relief and Works Agency for Palestine Refugees in the Near East per capita expenditure from 1987 to 1997

(United States dollars)



C. United Nations Relief and Works Agency for Palestine Refugees in the Near East per capita cost from 1952 to 1997

(United States dollars)